



Results for the half-year 2017
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Conference Call Q&A-Session

Transcription

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 Judit Havasi
 Peter Höfing

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Operator First question comes from the line of Daniel Bischof of Baader Helvea. Please go ahead.

Daniel Bischof Yes, thank you, good afternoon. I have three questions. The first one, on the Czech Republic. I mean, the combined ratios in the second quarter standalone looked rather weak. I think it was around 98%. Quite a high level actually for this region. I think in the Q1 call you mentioned that there were some mid-size property claims. Could you comment on what's going on in the Czech Republic and what you're seeing on the claims development side? I mean, are these rather random losses or is there a structural element to this?
Second one, on the Solvency II ratio, I mean 225%. That's the highest level of Vienna Insurance Group's history in Solvency II. Is there a cap to this or what are your thoughts in terms of additional capital management measures? And then the last one is just quickly on the life single premium business. I think you previously expected another drop in volumes this year but then probably a flat or slightly upwards development. Is that still a fair assumption?

Martin Simhandl Maybe I will start with the third question and then I would hand over to Peter for the first and to Judit for the second question. Yes, this is still a fair estimation. We think that we are underway, that the decrease next year should level out and then starting slight increases from the year afterwards on. Coming to Czech, please, Peter?

Peter Höfinger Maybe in the Czech Republic in the first half, we had on the one hand side a higher number of medium sized claims, which we did not experience in the past. So these medium sized claims in property I would believe is more on a, let's say, an unusual basis and should not be expected to continue. On the other hand side, we also have slightly an increase on our claims ratio in our motor business. This I believe we will see going forward as there is quite a strong competition in pricing. One should be also aware that we had in the past excellent combined ratios in Czech Republic. Now at half year it's 96.5, the combined ratio.

Martin Simhandl Judit?

Judit Havasi Now to the third question, the targeted Solvency II range. We have an ongoing discussion in the managing board and also preparing a proposal together with our planning process for end of the year. I think end of the year we can discuss also with you a little bit more in detail.

Daniel Bischof All right. Thank you.

Operator The next question comes from the line of Youdish Chicooree of Autonomous Research. Please go ahead.

Youdish Chicooree Good afternoon everyone. I've got two questions please. The first one, could you just give us a sense of how your pricing increases compare with claims inflation in your five largest markets? And then secondly, I understand your combined ratio target is a medium term one, so I think you're thinking more around three to five years. But considering you're actually taking measures to optimise your business at the moment, should we expect to see your combined ratio come down - Well, see the impact of these measures in the next 12, 15 months please?

Martin Simhandl Maybe again I'll start with the second question. You are completely right that this is a mid term target, and when we are talking about mid term it's three to four years. And on the combined ratios side we have elaborated what we are doing. There are things that you can influence and there are things that are rather market driven, and the things that we are influencing and we work on that continuously and it's also part of the Agenda 2020 is on the one side, the claims side, claims handling including fraud protection and things like that. And on the other side of course, on the cost side, I would not expect, not at all, that we come to that level in 12 to 15 months. We will work on it and we will try to further bring it down, but we are down by one percent point now and we are on track of coming to the 95 mid term and we are working hard on that. The second question, which was your first, I would hand over to Peter.

Peter Höfinger For the first half this year I cannot give the exact figures market to market, but I can maybe a little bit tell you about general trends. So what we see on one the hand side is an increase of average claims in bodily injuries. This is one effect which we have to deal with. On the other hand side, in many of our markets material damages are either stable or get reduced and we see in the motor business in quite some of our markets a stable or reduced frequency.

Youdish Chicooree Okay, thank you.

Operator Next question comes from the line of Bernd Maurer of RCB. Please go ahead.

Bernd Maurer Good afternoon. Three questions if I may please. First regarding to the strong increase of your Solvency II ratio, own fund up by roughly 1 billion. Of course we know about the 450 million from replacement of sub-debt, but can you state rough and ready the main drivers, perhaps numbering them like effect from higher

yields? Probably some currency effects positively or some supporting this development.

That's point one. Point two is about the effects of the appreciation of the Czech Koruna. Can you share a number with us about your bond portfolio or are the Czech Koruna the nominated bond portfolio and amount? This would be helpful. And third to Romania, to your outlooks of the motor business in Romania in light of the new price regulation following the, let's say, not so strict any more motor price cap but still heavy burdens from the regulation. Thank you.

Martin Simhandl

Maybe again I start with the second question, the first I would hand over to Judit and the third to Peter. The effect on the currency and maybe I also try to answer that part of the question when it comes to Solvency. I think if I have it in mind clearly we have a better position on the currency in the equity. The equity effect on the currency changes over the group I think about 30 million or something like that. This is what also comes out then in the Solvency calculation. This you can directly find in the numbers of the last year.

The second is the bond portfolio. We have in Czech a volume of roughly €3 billion, but you should be aware that again here the biggest part is stemming from life insurance and as you know on the currency side we are matched asset and liability wise, so all what we see here on increase of value in the bond portfolio out of the currency we would see on the other side responding to the policy holder side insofar that you would normally have there a very limited effect out of that which you would see then in the revaluation reserves.

Bernd Maurer

Yes. One question here. The 3 billion I calculate when taking your bond split. Are these €3 billion you said of the Czech bond portfolio, mostly they're nominated in the Czech Koruna or are there also Euro denominated bonds of Czech corporate included for example?

Martin Simhandl

I think you should differentiate two things. When I talk about the €3 billion then I'm talking about the investment portfolio of our Czech companies which are nearly completely bond portfolios because the equity part here is very limited. That's the one side. The other side, we have in the past sometimes we have published figures about our government exposure, and here when we're talking about Czech government exposure, that not only includes Czech Korunas but also Euro denominated Czech government bonds. But the 3 billion I was talking about is roughly the total investment portfolio in our Czech companies and insofar it's Czech Koruna denominated.

Bernd Maurer

Okay, thank you for this.

Judit Havasi The own funds development. So you are completely right. The one part is driven by our bond issuing and the second part, the same big portion, about €500 million is the changes in our best estimate reserves. Mostly I would say 75% is the positive development because of the yield curve development in our traditional best estimate reserves and 25% in our enhanced and accident insurance part because of the positive same development in reserving.

Bernd Maurer All right. Thank you for this.

Peter Höfinger Maybe to the Romanian topic, we have been also putting it to the slides. This very recent development we cannot seriously give you an answer to this, but what we are doing is we are very clearly emphasising and increasing our focus on the whole claims handling process because this we can influence and we have to do everything to keep and reduce average claim. So we are increasing out of court settlements in bodily injuries, we are increasing our negotiation power with the repair stations to make sure that we also have the material costs under control. So we have a full set of measures where we are focusing now on the claims handling process.

Bernd Maurer Thank you very much.

Peter Höfinger Pleasure.

Operator Next question comes from Rahul Parekh of JP Morgan. Please go ahead.

Rahul Parekh Hi, I have two questions please. My first question is which areas do you see pricing strong and weak? How would you classify pricing? Just general trends in pricing in non-life. And the second question is on the profit outlook. When I see your 220 million, in 2017 profit before tax and I just annualise it to 440 then I see that by 2019 which is two years time you are not forecasting a lot of growth. I just wanted some comments on that.

Martin Simhandl Maybe I start again with the second part of your question. This is exactly what I tried to elaborate of already in the last call. The overall development taking into account also the housing societies is a positive but a slight positive one. For the first half year this is slightly negative but we have to take into account seasonal effects and this is what I expect to come up.

Peter Höfinger Coming to the pricing trends in some of our main markets, if I start with Austria, in P&C Austria is quite stable in motor as well as in property. If you look to

Czech Republic, mentioned earlier in this call, we see there is quite strong competition in the motor business going forward and we have a two brand strategy there where we believe that we can be in this market successfully. Nevertheless there we see that in property it is quite stable. Poland we see a hardening of the markets, specifically in motor business, and we are benefiting out of it. This is seen on the one hand side by our growth rates but also in our improving combined ratio.

Slovakia motor business still strong competition here. In property it is quite stable. Maybe another market just mentioned is Hungary which has been in the past a market of the strongest competition in CEE motor business. Since 1.5 year and also this first half year we see also in Hungary a significant hardening of the motor premium which is also reflected by our operation and profitability.

Rahul Parekh

Okay, thank you.

Operator

The next question comes from the line of Frank Kopfinger of Deutsche Bank. Please go ahead.

Frank Kopfinger

Yes, good afternoon everybody. I have two questions on your combined ratios. So first of all on page 16 when you do the dive into the regional markets, I'm surprised that if I look into the regional developments and also driven by your strong decline in Austria of 3.6 percentage points to see only a one percentage point improvement year on year on a group level. Is there something that I'm missing? And secondly then on Austria specifically, on the 3.6% decline, could you break this down and what is driven by the improvements from DONAU Versicherung Italy? And also by other items like weather effects or major losses.

Martin Simhandl

Well, to your first question you are completely right, we see in several countries improvement and clearly the most important is on Austria. We see on the other hand that's a very important market, especially on the non-life side in Czech. In Czech we see a significant higher combined ratio, that's the one thing, and maybe also to stress a country combination where we only have non-motor business is Turkey and Georgia, and again here we have a significant increase in the combined ratio. So we have to see it together, and insofar I think this is mainly what it explains.

When we come to Austria, just to give you a general view on that, we have two companies in Austria that are dealing with non-life business. That's Wiener Städtische and that's Donau and we have seen improvements in the combined ratio in both of these companies.

Frank Kopfinger But can you break it down, what the effect of Italy is?

Martin Simhandl Frankly spoken, for the time being I cannot give you that figure. Maybe we can work on it. But as I said, it's not only driven by... It cannot be only driven by Italy because it's not only driven by Donau and again also in Donau it's not only driven by Italy.

Frank Kopfinger Okay, thanks.

Operator Next question comes from the line of Thomas Unger of Erste Group. Please go ahead. Mr Unger, your line is open, please go ahead.

Thomas Unger Yes, I'm sorry. I had my microphone muted. Thank you very much for taking my questions. First question would be if you could give us more details on the development in Poland in Q2. Profit was up in life and also in non-life. I know you mentioned the combined ratio developed very positively, but more details here would be useful. And also if you anticipate the combined ratio to go up in Q3. PZU reported some severe damages very recently and if that also had an effect on your Polish unit.

And then the second question would be, in the medium term do you anticipate any material changes in the asset allocation of your investment portfolio? Anything that you see for the agenda 2020? Any changes here? Thank you.

Martin Simhandl Maybe again I will start with your second question and then I would like to hand over to Peter for the first question. As you have seen, our investment portfolio is rather stable. What we have seen over the last years was a decrease on the financials and an increase in the other corporates. For the time being I would estimate that would stay quite stable and I would not expect for the time being substantially changes in the structure of the investment portfolio. The overall problem that we have clearly in the investment portfolio is that we have an artificial low interest rate environment which seems to continue at minimum for a certain time. But I think what we have shown is that we are as a group even in such an environment able to face that and to turn the results around even under such circumstances. And I think that's the main message. I would not expect substantially changes in the investment portfolio split over the coming years. Maybe now I hand over to Peter.

Peter Höfingler If you look on the motor market in Poland and the increase of the pricing in the motor market I currently would see for the upcoming months no big changes in this market, so we should benefit here out of the market

development as the whole market is. We are also having a quite strong growing SME portfolio in Poland which is developing very positively and is profitable. The large damages that you were mentioning in Poland is large industrial risks. We are under represented in the industrial lines in Poland which has also to do with the pricing in corporate business in Poland over the last years. So we should not be impacted by this and I would see this development of Poland to be continued in the months to come.

Life business, on one hand side we are actively developing over the last two, three years, seeing that our single premium business is going down but also that it gets more and more difficult with the classical endowments that has drawn a focus on biometrical risks. So we see first success this year and having an increased technical result. On the other hand side, we also had in the first year an increasing investment result in the life business.

Thomas Unger

Okay. And is there any risk that you see in terms of regulation with those price increases very recently in the motor market? Because I understand that the pricing competition was very strong in recent years and now it's just recovering, but do you see any risk here?

Peter Höfinger

I think if you look on the overall market and if you look on the result of the overall market, on the business result of the insurance industry in motor market, it is still I think on the way that the whole market becomes profitable in this line of business. I would not see any reason of any intervention from authorities. Which does not mean that it can't happen in Poland, yes?

Thomas Unger

Okay, thank you.

Operator

Next question comes from the line of Thomas Neuhold of Kepler Chevreux. Please go ahead.

Thomas Neuhold

Yes, good afternoon. Two questions from my side. Firstly on the chart breakdown on page 13 where you show a 0.9% increase in total premiums. There were several small acquisitions over the last couple of quarters. Could you give us an indication what the organic premium growth would have been like and which business lines are most impacted by the acquisitions you carried out over the last year? And the second question would be if you can give us an update what your reinvestment yield currently looks like. Thank you.

Martin Simhandl

I cannot give you a detailed number on the effect of the acquisitions. In fact the main is BTA in the Baltics. In general the Baltics have a heavy portion on the motor side and especially on the MTPL but we can elaborate

on that figures and maybe then we can provide it. The new investment yield is ending somewhere around 2% in Austria, and Austria is always the main item here as it's a Euro country and it's by far the biggest block. I cannot give you now details on the Romanian RON or on Polish Zloty, but you have to expect that in those currencies the interest rates are rather higher. Substantially.

Thomas Neuhold

Okay. Thank you very much.

Nina Higatzberger

Okay, thank you. It seems that there are no further questions. We will check regarding the growth excluding the acquisitions and we will provide this later on. Ladies and gentlemen, thank you for your interest in VIG and for listening in. The next scheduled results call will take place on the 29th of November when VIG is releasing its first to third quarter results 2017. Have a good day and goodbye.

Martin Simhandl

Goodbye.

Judit Havasi

Bye.

Peter Höfinger

Bye.